

AR52

CALVERT Gas & Oils Limited

Shareholders Report

FOR THE YEAR ENDED
DECEMBER 31, 1964

and for the period
ended March 31, 1965

CALVERT GAS & OILS LIMITED

(Incorporated as a Public Company under the Laws of the Dominion of Canada)

CAPITALIZATION

	Authorized	Issued
Common Shares	5,000,000	3,225,000

OFFICERS and DIRECTORS

OFFICERS

J. A. L. WHITE, Ph. D., P. Eng.	President
J. C. EVANS, B.A.	Vice-President
F. W. BOULGER, B. Com.	Secretary-Treasurer
F. G. ROMAN, B. Com.	Assistant Secretary-Treasurer

DIRECTORS

F. W. BOULGER, B. Com.	Toronto, Ontario
J. G. CASTEL, S.J.D.	Toronto, Ontario
J. C. EVANS, B.A.	Toronto, Ontario
A. RATTEW, B.Sc., P. Eng.	Ottawa, Ontario
F. G. ROMAN, B. Com.	Toronto, Ontario
R. RULE, B.Sc. P. Eng.	Toronto, Ontario
J. A. L. WHITE, Ph. D., P. Eng.	Toronto, Ontario

TRANSFER AGENTS

Canada Permanent Trust Company

ADMINISTRATIVE OFFICES

20th Floor, 4 King Street West, Toronto, Ontario

CALVERT GAS & OILS LIMITED

4 King Street West
TORONTO, ONTARIO

June 21, 1965.

TO THE SHAREHOLDERS:

On April 20, 1965 the shareholders of Calvert Gas & Oils Limited elected a new board of directors by an overwhelming majority. On behalf of the new directors I extend our thanks to the many shareholders who attended the annual meeting or sent in their proxies in our favour.

Because of the changes of the affairs of the company during the last few months we herewith submit financial statements for the 5 month period ending March 31, 1965 as well as financial statements for the fiscal year ended December 31, 1964.

We can assure the shareholders that every action is being taken to assess your company's operations. An evaluation of our oil properties is being made by a competent professional oil consultant.

Shareholders are undoubtedly aware that in 1964 your company obtained a highly regarded copper prospect in the Gaspé area of Quebec, and that a considerable amount of exploration work was done on it, including mapping, an extensive geophysical (induced polarization) survey, and some 10,000 feet of diamond drilling. Economic copper mineralization was encountered in several drill holes, but before the program could be completed, the previous directors of your company decided to suspend exploration on the property. It is clear, from the number of proxies returned in favour of the present management, that the shareholders did not agree with this decision.

Immediately upon election, your directors initiated an evaluation of the Gaspé property, and when a work program had been developed a new underwriting of treasury shares was arranged with John Gardon & Co. Ltd. of Toronto, no funds having been left in the treasury. This underwriting was approved by the Toronto and Vancouver Stock Exchanges on June 10, 1965, and \$60,000 is being placed in the Calvert treasury. The company is now "on its feet" again.

The geological program is in progress. A drill is expected on the property on June 25, and a series of test holes, including some very deep drilling, is planned. Stepouts from previous intersections will be drilled, and several areas of particular interest will be drilled and trenched.

Our Gaspé property is an intriguing one, an opinion which is supported by expressions of interest from several major mining companies, which have offered to pursue a joint work program on your company's property.

Shareholders will be interested to learn that a major mining company has taken an option on the property adjoining Calvert, and is currently pursuing an intensive work program. Other senior companies are working in the area and an active summer is expected in Gaspé.

As work continues, progress reports will be sent to shareholders. Your directors expect that any significant results will be published in the industry press between times.

Everyone connected with the company looks forward to the coming months with enthusiasm and optimism.

On behalf of the Board of Directors
J. A. L. WHITE,
President

CALVERT GAS & OILS LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the accompanying Consolidated Balance Sheet as at December 31, 1964 of Calvert Gas & Oils Limited and its wholly-owned subsidiary Bedford American Petroleum Corporation and the related Consolidated Statement of Operations for the year then ended, and have received all the information and explanations we required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures of the Parent Company as we considered necessary in the circumstances. The accounts of Calvert Gas & Oils Limited for the period January 1, 1964 to October 31, 1964 have been examined by other independent accountants and in our examinations we have relied on the reports of the said independent accountants. In addition, the accounts of Bedford American Petroleum Corporation have been examined by their U.S. independent accountants and in our examination we have relied on the reports of the said independent accountants.

Based on our examination and the reports of the other independent accountants, in our opinion, the accompanying Consolidated Financial Statements supplemented by the notes appended thereto, which also form an integral part of this report, are properly drawn up so as to exhibit a true and correct view of the consolidated affairs of Calvert Gas & Oils Limited as at December 31, 1964 and the consolidated results of operations for the year then ended, according to the best of our information, the explanations given to us, and as shown by the books of the Parent Company and the certified Financial Statements of the Subsidiary Company. We further report that in our opinion the accompanying Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

SOUPCOFF, STARKMAN, KRAFT & CO.,
Chartered Accountants.

Toronto, Ontario.
June 7, 1965.

CALVERT GAS & OILS LIMITED

(Incorporated as a Public Company Under the Laws of the Dominion of Canada)

CONSOLIDATED BALANCE SHEET (NOTE 1)

ASSETS

CURRENT ASSETS

Cash on Hand and in Banks			\$ 16,956.79	
Accounts Receivable — Sundry	\$ 4,342.77			
— Impounded Funds (Note 6)	6,379.45	10,722.22		\$ 27,679.01
INVESTMENTS — (at cost) (Note 2)				15,424.12

FIXED ASSETS (at cost)

OIL PROPERTIES (Note 2)

	COST	ACCUMULATED DEPLETION AND DEPRECIATION	NET	
Interest in Productive Leases	\$145,189.66	\$ 61,756.97	\$ 83,432.69	
Development Costs on Productive Leases	52,886.73	8,680.06	44,206.67	
Lease Equipment	70,742.62	36,252.21	34,490.41	
Interests in Undeveloped Leases, Reservations, etc.	25,959.22	—	25,959.22	
	<u>\$294,778.23</u>	<u>\$106,689.24</u>	<u>\$188,088.99</u>	

MINING PROPERTIES (Notes 7 and 8)

Mining Claims	\$ 46,533.00			
Development Costs (as per Attached Statement)	108,082.39			
	<u>\$154,615.39</u>			
Option on Mining Claims	1,000.00			
Mining Equipment and Supplies	10,000.00			
Airstrip	1,000.00	166,615.39	354,704.38	

DEFERRED EXPENSES

Organization and Reorganization Unamortized Balance (Note 4)	1,398.61	
TOTAL ASSETS	<u>\$399,206.12</u>	

Approved on Behalf of the Board of Directors: F. G. ROMAN
 Subject to Report Dated June 7, 1965 DIRECTOR

AND ITS WHOLLY-OWNED SUBSIDIARY
BEDFORD AMERICAN PETROLEUM CORPORATION

(Incorporated Under the Laws of the State of Oklahoma, U.S.A.)

AS AT DECEMBER 31, 1964

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Bank Loan (secured)	\$ 38,778.96	
Accounts Payable and Accrued Liabilities	<u>10,517.71</u>	\$ 49,296.67

RESERVE FOR FOREIGN EXCHANGE (Note 1)		6,853.53
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CONTINGENT LIABILITY (Note 5)

CAPITAL STOCK AND DEFICIT

CAPITAL STOCK (Note 9)

Authorized:

5,000,000 Shares of Par Value 5¢ Each

Issued and Fully Paid:

	PAR VALUE	PREMIUM	TOTAL
2,200,000 Shares as at January 1, 1964	\$110,000.00		\$110,000.00
800,000 Shares Issued for Cash	40,000.00	\$130,000.00	170,000.00
225,000 Shares Issued for Mining Properties	11,250.00	22,500.00	33,750.00
3,225,000	<u>\$161,250.00</u>	<u>\$152,500.00</u>	<u>\$313,750.00</u>

CAPITAL SURPLUS	559,380.87	
DEFICIT (as per Attached Statement)	<u>(530,074.95)</u>	343,055.92

TOTAL LIABILITIES AND CAPITAL		<u>\$399,206.12</u>
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Note: The accompanying Notes to Consolidated Financial Statements
form an integral part of these statements.

F. W. BOULGER
DIRECTOR

CALVERT GAS & OILS LIMITED

STATEMENT OF DEFERRED DEVELOPMENT EXPENDITURES ON MINING CLAIMS

FOR THE PERIOD FROM ACQUISITION (FEBRUARY 18, 1964)
TO DECEMBER 31, 1964

Drilling	\$ 66,023.45
Tractor Rental	1,145.00
Engineers and Consultants	10,705.49
Geophysical Surveys	13,329.80
Assays	561.60
Management Services	6,822.58
Legal Fees	1,899.74
Travelling Expenses	2,696.78
Telephone and Telegraph	2,055.82
License, Fees and Taxes	2,480.00
Miscellaneous	362.13
	<u>\$108,082.39</u>

CALVERT GAS & OILS LIMITED AND ITS WHOLLY-OWNED SUBSIDIARY BEDFORD AMERICAN PETROLEUM CORPORATION

CONSOLIDATED STATEMENT OF DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1964

CONSOLIDATED DEFICIT — January 1, 1964	\$508,705.28
ADD: Net Loss for Year Ended December 31, 1964 (Per Attached Statement)	\$ 19,203.43
Legal Fees for Amendments re Registration with the Securities and Exchange Commis- sion, Washington, D.C. (other charges previously written off)	<u>2,166.24</u> <u>21,369.67</u>
CONSOLIDATED DEFICIT — December 31, 1964	<u>\$530,074.95</u>

CALVERT GAS & OILS LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY BEDFORD AMERICAN PETROLEUM CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS (NOTE 1) FOR THE YEAR ENDED DECEMBER 31, 1964

OPERATING REVENUE

Gross Oil and Gas Sales	\$ 52,526.56
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OPERATING AND GENERAL ADMINISTRATIVE EXPENSES

Production and Operating Expenses	\$ 12,783.95
Transfer Agents' Fees and Expenses	2,552.30
Legal Fees	16,723.72
Directors' Management Fees re U.S. Oil Operations	4,200.00
Rent, Secretarial and Accounting Services	4,429.78
Engineering Fees and Expenses	5,492.55
Audit Fees	3,774.00
Publicity and Shareholders' Information	273.18
Telephone and Telegraph	2,378.78
General and Office Expenses	541.91
Directors' Fees	1,650.00
Licenses, Fees and Taxes	491.51
Listing Fees	50.00
Travelling Expenses	2,312.56
Interest Expenses	1,548.53
Underwriting Expenses (Including Legal \$3,347.13)	3,827.13
	<u>63,029.90</u>

NET OPERATING LOSS BEFORE PROVISION FOR UNDERMENTIONED ITEMS	\$(10,503.34)
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Depletion (Note 3)	\$ 10,207.92
Depreciation (Note 3)	5,853.84
Amortization of Development Costs (Note 3)	1,508.88
Amortization of Organization Costs (Note 4)	559.44
	<u>(18,130.08)</u>

NET LOSS FROM OPERATIONS	\$(28,633.42)
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OTHER INCOME

Gain on Sale of Certain Oil and Gas Properties	<u>9,429.99</u>
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NET LOSS	<u><u>\$(19,203.43)</u></u>
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CALVERT GAS & OILS LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

BEDFORD AMERICAN PETROLEUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1964

NOTE 1: For purposes of consolidation U.S.A. accounts have been converted to Canadian Funds at Par and foreign exchange adjustments resulting from inter-company advances have been credited to Reserve for Foreign Exchange.

NOTE 2: *Investments*

Investments owned by the U.S. Subsidiary consist of U.S. Treasury 3% bonds due May 15, 1968 with a par value of \$15,500.00 and are shown on the balance sheet at cost. These bonds were purchased as collateral for the posting of an indemnity bond with Indiana Oil Purchasing Company. The bonds are presently in the possession of the bonding company. See Note 5.

NOTE 3: Interests in Producing Leases, Development Costs, Equipment, etc. are carried at cost less accumulated Depletion, Amortization and Depreciation. Depletion of cost of producing properties and amortization of well development costs of producing wells, in both the parent and subsidiary companies are being provided for on the unit-of-production basis which will write off the cost of the properties over their estimated geological life and write off the well development costs over the estimated geological life of the wells. Depreciation of Production equipment is being provided for in the parent company on the unit-of-production basis which will write off the production equipment over the estimated geological life of the wells. Depreciation of Production equipment is being provided for in the subsidiary company on the straight-line method applied to cost less estimated salvage value of such equipment at a rate of 10%.

Expenditures for maintenance and repairs are charged to operations. Expenditures for replacements, renewals and betterments, which materially increased the life of the assets, are capitalized.

Upon retirement or disposal of property assets, the cost of the properties retired or disposed of and the related accumulated Depletion, Amortization and Depreciation are removed from the respective accounts; net profits or losses resulting therefrom are credited or charged to income. Drilling expenses which result in dry holes are being written off to operations.

Interests in Undeveloped Leases, Reservations, etc. are valued at cost. Lease rentals and miscellaneous costs are being charged to the cost of the respective undeveloped properties.

No provision is being made for depletion of the cost of undeveloped properties and amortization of development costs thereon.

On abandonment of undeveloped properties, their cost, together with accumulated development expenses, are written off to operations.

NOTE 4: The organization and reorganization expenses are being amortized on a straight-line basis over a period of five years.

NOTE 5: *Contingent Liability*

The operator of certain U.S. leases has filed liens aggregating approximately \$3,800.00 against certain oil and gas leasehold interests located in Colorado and Nebraska. According to Bedford American's counsel, Bedford American's liability cannot be determined at this time because the operator has not submitted verified records concerning the liens. No provision therefor is made in the accounts for this contingency.

NOTE 6: *Impounded Funds*

This represents oil and gas sales from certain leases owned by the U.S. Subsidiary from which the pipeline companies have withheld payment due to operator filing liens as reported in Note 5 above.

NOTE 7: On February 18, 1964 the company entered into an agreement for the acquisition of 19 unpatented mining claims in Lemieux Township, Province of Quebec, together with equipment, supplies, facilities, etc. for \$21,000.00 and 225,000 shares of the company's capital stock, and received by assignment, an option to acquire an additional 35 unpatented mining claims for \$6,000.00 and 75,000 shares of the company's capital stock. On July 1, 1964 the company made its first option payment of \$1,000.00 and further payments are due on July 1, 1965 — \$2,000.00 and July 1, 1966 — \$3,000.00.

NOTE 8: No depreciation has been taken on mining equipment and supplies or on the Airstrip. All expenditures on the mining claims are being deferred.

NOTE 9: By agreement dated June 1, 1965, John Gardon & Co. Limited(the underwriter) have agreed to purchase 200,000 shares of the capital stock of the company at 30¢ per share (\$60,000.00) payable forthwith after the acceptance of the company's filing statement by the Toronto and Vancouver Stock Exchanges and the acceptance of the company's prospectus by the Secretary of State of Canada (the effective date). In consideration of the foregoing the company granted to the underwriter options to purchase 800,000 shares of the company's capital stock as follows:

200,000 shares at 30¢ exercisable within three months of the effective date,

200,000 shares at 35¢ exercisable within six months of the effective date,

200,000 shares at 40¢ exercisable within nine months of the effective date,

100,000 shares at 50¢ exercisable within twelve months of the effective date,

100,000 shares at 60¢ exercisable within fifteen months of the effective date.

CALVERT GAS & OILS LIMITED

AUDITORS' REPORT

We have examined the accompanying Interim Consolidated Balance Sheet as at March 31, 1965 of Calvert Gas & Oils Limited and its wholly-owned subsidiary Bedford American Petroleum Corporation and the related Interim Consolidated Statement of Operations for the five months then ended, and have received all the information and explanations we required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures of the Parent Company as we considered necessary in the circumstances, but did not include the accounts of the Subsidiary Company. We were furnished with interim certified financial statements for the five months ended March 31, 1965 for Bedford American Petroleum Corporation together with the report thereon of Messrs. Elmer Fox & Company, Certified Public Accountants.

In our opinion, the accompanying Interim Consolidated Financial Statements supplemented by the notes appended thereto, which also form an integral part of this report, are properly drawn up so as to exhibit a true and correct view of the consolidated affairs of Calvert Gas & Oils Limited as at March 31, 1965 and the consolidated results of operations for the five months then ended, according to the best of our information, the explanations given to us, and as shown by the books of the Parent Company and the interim certified Financial Statements of the Subsidiary Company. We further report that in our opinion the accompanying Interim Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceeding year.

SOUPCOFF, STARKMAN, KRAFT & CO.,
Chartered Accountants.

Toronto, Ontario.
June 7, 1965.

CALVERT GAS & OILS LIMITED

(Incorporated as a Public Company Under the Laws of the Dominion of Canada)

INTERIM CONSOLIDATED BALANCE SHEET (NOTE 1)

A S S E T S

CURRENT ASSETS

Cash on Hand and in Banks			\$ 15,984.81	
Accounts Receivable — Sundry	\$ 5,722.64			
— Impounded Funds (Note 7)	6,810.38	12,533.02		\$ 28,517.83
INVESTMENTS — (at cost) (Note 2)				15,424.12

FIXED ASSETS (at cost)

OIL PROPERTIES (Note 3)

	COST	ACCUMULATED DEPLETION AND DEPRECIATION	NET	
Interests in Productive Leases	\$145,189.66	\$ 64,096.79	\$ 81,092.87	
Development Costs on Productive Leases	55,816.36	9,071.13	46,745.23	
Lease Equipment	70,339.16	37,709.09	32,630.07	
Interests in Undeveloped Leases, Reservations, etc.	37,248.83	—	37,248.83	
	<u>\$308,594.01</u>	<u>\$110,877.01</u>	<u>\$197,717.00</u>	

MINING PROPERTIES (Notes 8 and 9)

Mining Claims	\$ 46,533.00			
Development Costs (as per Attached Statement)	108,082.39			
	<u>\$154,615.39</u>			
Option on Mining Claims	1,000.00			
Mining Equipment and Supplies	10,000.00			
Airstrip	1,000.00	166,615.39	364,332.39	

DEFERRED EXPENSES (Note 4)

Organizations and Reorganization Expenses — Unamortized Balance	\$ 1,258.75			
Deferred Loan Cost — Unamortized Balance	1,329.90		2,588.65	

TOTAL ASSETS				<u>\$410,862.99</u>
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Approved on Behalf of the Board of Directors: F. G. ROMAN
Subject to Report Dated June 7, 1965 DIRECTOR

AND ITS WHOLLY-OWNED SUBSIDIARY
BEDFORD AMERICAN PETROLEUM CORPORATION
(Incorporated Under the Laws of the State of Oklahoma, U.S.A.)

AS AT MARCH 31, 1965

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Bank Loan (secured)	\$ 36,643.36	
Accounts Payable and Accrued Liabilities	20,506.79	
Current Portion of Mortgage Note Payable — (Note 5)	<u>12,000.00</u>	\$ 69,150.15

LONG TERM DEBT (Note 5)

Mortgage Note Payable — Bank (secured)	\$ 19,462.78	
Less: Amount due Within One Year	<u>12,000.00</u>	7,462.78

RESERVE FOR FOREIGN EXCHANGE (Note 1)		7,222.28
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CONTINGENT LIABILITY (Note 6)

CAPITAL STOCK AND DEFICIT

CAPITAL STOCK (Note 10)

Authorized:

5,000,000 Shares of Par Value 5¢ Each

Issued and Fully Paid:

	PAR VALUE	PREMIUM	TOTAL
3,225,000 Shares	\$161,250.00	\$152,500.00	\$313,750.00
CAPITAL SURPLUS			559,380.87
DEFICIT (as per Attached Statement)		<u>(546,103.09)</u>	327,027.78

TOTAL LIABILITIES AND CAPITAL		<u><u>\$410,862.99</u></u>
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Note: The accompanying Notes to Consolidated Financial Statements
form an integral part of these statements.

F. W. BOULGER
DIRECTOR

CALVERT GAS & OILS LIMITED

STATEMENT OF DEFERRED DEVELOPMENT EXPENDITURES ON MINING CLAIMS

FOR THE PERIOD FROM ACQUISITION (FEBRUARY 18, 1964)
TO MARCH 31, 1965

Drilling	\$ 66,023.45
Tractor Rental	1,145.00
Engineers and Consultants	10,705.49
Geophysical Surveys	13,329.80
Assays	561.60
Management Services	6,822.58
Legal Fees	1,899.74
Travelling Expenses	2,696.78
Telephone and Telegraph	2,055.82
License, Fees and Taxes	2,480.00
Miscellaneous	362.13
	<u>\$108,082.39</u>

CALVERT GAS & OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
BEDFORD AMERICAN PETROLEUM CORPORATION
INTERIM CONSOLIDATED STATEMENT OF DEFICIT
FOR THE FIVE MONTHS ENDED MARCH 31, 1965

CONSOLIDATED DEFICIT — November 1, 1964	\$520,917.00
ADD: Net Loss for the Five Months Ended March 31, 1965 (Per Attached Statement)	<u>25,186.09</u>
CONSOLIDATED DEFICIT — March 31, 1965	<u>\$546,103.09</u>

CALVERT GAS & OILS LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY BEDFORD AMERICAN PETROLEUM CORPORATION

INTERIM CONSOLIDATED STATEMENT OF OPERATIONS (NOTE 1) FOR THE FIVE MONTHS ENDED MARCH 31, 1965

OPERATING REVENUE

Gross Oil and Gas Sales	\$ 19,936.49
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OPERATING AND GENERAL ADMINISTRATIVE EXPENSES

Production and Operating Expenses	\$ 3,516.40	
Transfer Agents' Fees and Expenses	1,278.88	
Legal Fees	22,769.94	
Directors' Management Fees re U.S. Oil Operations	1,750.00	
Rent, Secretarial and Accounting Services	250.00	
Engineering Fees and Expenses	1,669.33	
Audit Fees	1,770.00	
Telephone and Telegraph	2,081.40	
General and Office Expenses	374.08	
Directors' Fees	1,200.00	
Licenses, Fees and Taxes	201.70	
Listing and Filing Fees	105.50	
Travelling Expenses	745.27	
Interest Expenses	909.28	38,621.78

NET OPERATING LOSS BEFORE PROVISIONS FOR UNDERMENTIONED ITEMS	\$(18,685.29)
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Depletion (Note 3)	\$ 5,423.64	
Depreciation (Note 3)	2,434.50	
Amortization of Development Costs (Note 3)	639.64	
Amortization of Organization Costs (Note 4)	233.10	
Amortization of Deferred Loan Cost (Note 4)	147.76	(8,878.64)

NET LOSS FROM OPERATIONS	\$(27,563.93)
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OTHER INCOME

Gain on Sale of Certain Oil and Gas Properties	2,377.84
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NET LOSS	<u>\$(25,186.09)</u>
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CALVERT GAS & OILS LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

BEDFORD AMERICAN PETROLEUM CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 1965

NOTE 1: For purposes of consolidation U.S.A. accounts have been converted to Canadian Funds at Par and foreign exchange adjustments resulting from inter-company advances have been credited to Reserve for Foreign Exchange.

NOTE 2: *Investments*

Investments owned by the U.S. Subsidiary consist of U.S. Treasury 3% bonds due May 15, 1968 with a par value of \$15,500.00 and are shown on the balance sheet at cost. These bonds were purchased as collateral for the posting of an indemnity bond with Indiana Oil Purchasing Company. The bonds are presently in the possession of the bonding company. See Note 6.

NOTE 3: Interests in Producing Leases, Development Costs, Equipment, etc. are carried at cost less accumulated Depletion, Amortization and Depreciation. Depletion of cost of producing properties and amortization of well development costs of producing wells, in both the parent and subsidiary companies are being provided for on the unit-of-production basis which will write off the cost of the properties over their estimated geological life and write off the well development costs over the estimated geological life of the wells. Depreciation of Production equipment is being provided for in the parent company on the unit-of-production basis which will write off the production equipment over the estimated geological life of the wells. Depreciation of Production equipment is being provided for in the subsidiary company on the straight-line method applied to cost less estimated salvage value of such equipment at a rate of 10%.

Expenditures for maintenance and repairs are charged to operations. Expenditures for replacements, renewals and betterments, which materially increased the life of the assets, are capitalized.

Upon retirement or disposal of property assets, the cost of the properties retired or disposed of and the related accumulated Depletion, Amortization and Depreciation are removed from the respective accounts; net profits or losses resulting therefrom are credited or charged to income. Drilling expenses which result in dry holes are being written off to operations.

Interests in Undeveloped Leases, Reservations, etc. are valued at cost. Lease rentals and miscellaneous costs are being charged to the cost of the respective undeveloped properties.

No provision is being made for depletion of the cost of undeveloped properties and amortization of development costs thereon.

On abandonment of undeveloped properties, their cost, together with accumulated development expenses, are written off to operations.

NOTE 4: The organization and reorganization expenses are being amortized on a straight-line basis over a period of five years. The deferred loan cost is being amortized over the term of the mortgage note payable to the bank.

NOTE 5: *Mortgage Note Payable — Bank*

On January 26, 1965 the U.S. Subsidiary negotiated a loan in the amount of \$20,000.00 with the First National Bank and Trust Company, Tulsa, Oklahoma, secured by a mortgage on certain of the U.S. oil properties. This note bears interest at 6% per annum and is due in 20 monthly installments of 75% of the oil income from the above properties with a minimum payment of \$1,000.00.

NOTE 6: *Contingent Liability*

The operator of certain U.S. leases has filed liens aggregating approximately \$3,800.00 against certain oil and gas leasehold interests located in Colorado and Nebraska. According to Bedford American's counsel, Bedford American's liability cannot be determined at this time because the operator has not submitted verified records concerning the liens. No provision therefor is made in the accounts for this contingency.

NOTE 7: *Impounded Funds*

This represents oil and gas sales from certain leases owned by the U.S. Subsidiary from which the pipeline companies have withheld payment due to operator filing liens as reported in Note 6 above.

NOTE 8: On February 18, 1964 the company entered into an agreement for the acquisition of 19 unpatented mining claims in Lemieux Township, Province of Quebec, together with equipment, supplies, facilities, etc. for \$21,000.00 and 225,000 shares of the company's capital stock, and received by assignment, an option to acquire an additional 35 unpatented mining claims for \$6,000.00 and 75,000 shares of the company's capital stock. On July 1, 1964 the company made its first option payment of \$1,000.00 and further payments are due on July 1, 1965 — \$2,000.00 and July 1, 1966 — \$3,000.00.

NOTE 9: No depreciation has been taken on mining equipment and supplies or on the Airstrip. All expenditures on the mining claims are being deferred.

NOTE 10: By agreement dated June 1, 1965, John Garden & Co. Limited (the underwriter) have agreed to purchase 200,000 shares of the capital stock of the company at 30¢ per share (\$60,000.00) payable forthwith after the acceptance of the company's filing statement by the Toronto and Vancouver Stock Exchanges and the acceptance of the company's prospectus by the Secretary of State of Canada (the effective date). In consideration of the foregoing the company granted to the underwriter options to purchase 800,000 shares of the company's capital stock as follows:

200,000 shares at 30¢ exercisable within three months of the effective date,

200,000 shares at 35¢ exercisable within six months of the effective date,

200,000 shares at 40¢ exercisable within nine months of the effective date,

100,000 shares at 50¢ exercisable within twelve months of the effective date,

100,000 shares at 60¢ exercisable within fifteen months of the effective date.

